

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7053

BILL NUMBER: HB 1381

NOTE PREPARED: Jan 13, 2014

BILL AMENDED:

SUBJECT: Remove Age Limit on Military Service Tax Deduction.

FIRST AUTHOR: Rep. Speedy

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill eliminates the age requirement for deducting the first \$5,000 of military service income received by an individual for retirement or survivor's benefits.

The bill establishes the Veterans Disability Clinic Fund to provide funding for grants to Indiana law schools that establish or maintain a clinical program that provides law students the opportunity to represent veterans in claims for veterans disability compensation.

The bill appropriates money in the Veterans Disability Clinic Fund.

Effective Date: January 1, 2014 (retroactive); July 1, 2014.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the changes to the military income deduction. The DOR's current level of resources should be sufficient to implement these changes.

Veterans Disability Clinic Fund: The bill defines 'veterans disability clinic' as a clinical program in a law school that is approved by the American Bar Association and located in Indiana. The bill establishes a Veterans Disability Clinic Fund to provide funding for grants to qualified law schools that establish or maintain a veterans disability clinic. It provides that the fund would be administered by Indiana Veterans Affairs Commission and consists of the following: (1) appropriations; (2) donations to the fund; (3) interest; (4) money transferred to the fund from other funds; and (5) money from any other source authorized or appropriated for the fund.

It requires any qualifying law school that wishes to receive a grant to maintain a veterans disability clinic to consult with the Department of Veterans Affairs. It appropriates money from the fund to carry out the purposes of the fund.

Explanation of State Revenues: *Military Retirement Income*: The bill extends the individual adjusted gross income (AGI) deduction for military pension and survivor's benefits to individuals receiving these benefits who are under the age of 60. These changes would be effective beginning in tax year 2014, with the revenue impact beginning in FY 2015. The estimated annual revenue loss is \$2.0 M in FY 2015 and FY 2016. The revenue loss could potentially grow by 1% to 2% annually thereafter.

Additional Information: Current statute provides an AGI deduction for the first \$5,000 of income earned by an individual for his or her service in an active or reserve component of the U.S. armed forces, including the National Guard. The \$5,000 deduction also applies to military retirement income or survivor's benefits received by a taxpayer who is 60 years old or older. The bill extends that deduction to a taxpayer who is less than 60 years of age and receives military retirement income or survivor's benefits.

The estimates are based on pay and benefit information and personnel, retiree, and survivors counts from 2005 to 2013 from the U.S. Department of Defense (DOD), Defense Manpower Data Center (DMDC). These data provide counts of military retirees and survivors reporting Indiana as their state of legal residence and monthly annuity payments to those individuals.

In 2013, the DMDC reported pay and benefit amounts for 25,975 military retirees, and 4,101 survivors who reported that Indiana was their state of legal residence. The total annuity payments in 2013 to military retirees is estimated to have totaled \$566.5 M, with the total paid to survivors estimated at \$45.9 M for the year. The historical DMDC data was used to estimate the annual fiscal impact and the projected growth rate.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the changes to the military income deduction will decrease taxable income, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes. Based on the current average LOIT rate of 1.4%, the estimated revenue loss is \$0.85 M in FY 2015 and FY 2016. The revenue loss could potentially grow by 1% to 2% annually thereafter.

State Agencies Affected: Department of State Revenue; Indiana Veterans Affairs Commission; Indiana Department of Veterans Affairs.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: U.S. Department of Defense, Defense Manpower Data Center; OFMA Income Tax Return databases.

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